

Quarterly Activities Report – September 2022 Quarter

The Board of LawFinance Limited (“LawFinance” or “the Company”) provides the following quarterly update.

September 2022 quarter (3Q22) KPI and commentary:

- **Originations¹ - US\$1.1 million**

The internal sales and business team underperformed on expectations in 3Q22. After investing in the team earlier in 2022 and seeing subsequent pipeline improvement, the team has been unable to execute on monthly planned origination or provide sufficient confidence that they will originate at planned levels in the near term.

We pivoted our origination strategy in 3Q22, to place less reliance on originations generated from our internal sales team, which was reduced in size and cost during 3Q22. Our omnichannel origination strategy moving forward will be comprised of i) core recurring originations through our existing provider and affiliate network ii) greater focus on brokers, and iii) Trident Health Group.

We have also made the decision to pause originations while we focus on refinancing our asset backed lending facility in the US with a bank at a significantly cheaper cost (discussed below).

- **Cash Collections (case related) - US\$6.5 million**

Cash collected from the PFG and EFI books of receivables was US\$6.1 million and US\$0.4 million, respectively. The very strong PFG book collections were driven by repayment of Letter of Credit funding (US\$3.9 million), while collections on purchased medical receivables of US\$2.2 million exceeded the average of the first two quarters of the year (US\$2 million).

During the 3Q22 period, US\$3.8 million Letter of Credit funding provided by the Company to two Texas providers repaid the first tranche of funding and accrued interest in full. While repaid earlier than expected the terms of the facility were fully complied with and earned interest of 16% p.a. In October, the second tranche of funding in the sum of US\$1.5 million was also repaid in full. The reason for repaying both tranches was that the Texas providers were able to refinance with a US bank at significantly lower cost than the Letter of Credit.

- **Capital Raising and refinancing**

With strong collections in 3Q22, the net outstanding debt of our Partners for Growth (PFG) asset backed facility had reduced to c.US\$12.6 million as at 30 September 2022.

As of 30 September 2022, the Company was in breach of the PFG Liquidity Covenant which requires NHF (book servicer entity) to maintain US\$1 million of unrestricted cash in its operating bank account at all times. This covenant breach has been waived until 7 November 2022 as the

¹Originations: This is the new cash funding deployed for the purchase of medical receivables and funding advances made under letters of credit, backed/collateralised by medical receivables contained in the PFG book



Company and PFG discuss the operation and release of capital from the PFG facility. While these discussions are underway, the Net Tangible Worth covenant will not be tested and NHF has agreed that all collections under the PFG book will be used to reduce the outstanding balance of the PFG facility.

As of 30 September, the Company had US\$0.98 million of cash at bank and a further US\$0.95 million of available funding in the PFG finance facility due to the 'equity' on collections received in September. However, NHF only held US\$0.74 million of cash in its operating account.

PFG have agreed in principle for NHF to refinance their facility early, which could reduce our funding cost significantly. We commenced the refinance process in 3Q22 with US bank funders and are working towards completing a refinance in 1Q23. In the interim, we have paused new originations.

- **Operating Expenditure (OPEX)**

Average monthly OPEX of US\$0.48 million in 3Q22 was in line with expectations.

LawFinance implemented further cost reduction initiatives in 3Q22 that have reduced our budgeted OPEX to c.\$0.33 million per month (excluding expenses relating to a refinancing). These initiatives align the cost structure with the omnichannel origination strategy discussed above.

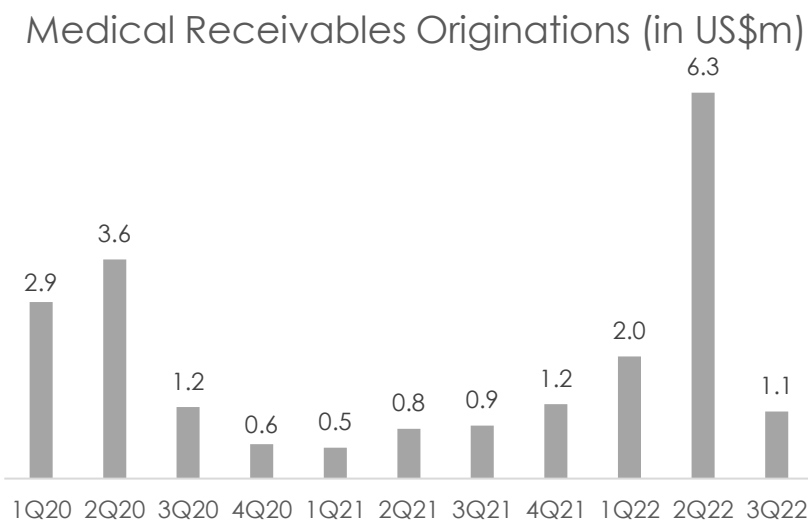
Operational Overview

Originations and book size

During the 3Q22 originations totalled US\$1.1 million. The NHF sales and business development team were unable to achieve expectations of greater than US\$1 million originations per month.

While we had invested in the internal sales and business development team earlier in 2022, and the pipeline had increased, the ability of the team to execute on opportunities was below expectations. Management lacked confidence that this team could achieve planned originations in the near term.

Accordingly, we made the decision to pivot the originations strategy to reduce the reliance on originations generated by the internal sales team and focus efforts on core recurring originations through three main channels, (i) our provider and affiliate network, (ii) third party brokers and (iii) Trident Health Group. Management believes that it can achieve a better outcome through these three channels without incurring the fixed cost of maintaining an internal sales team.



Cash Collections

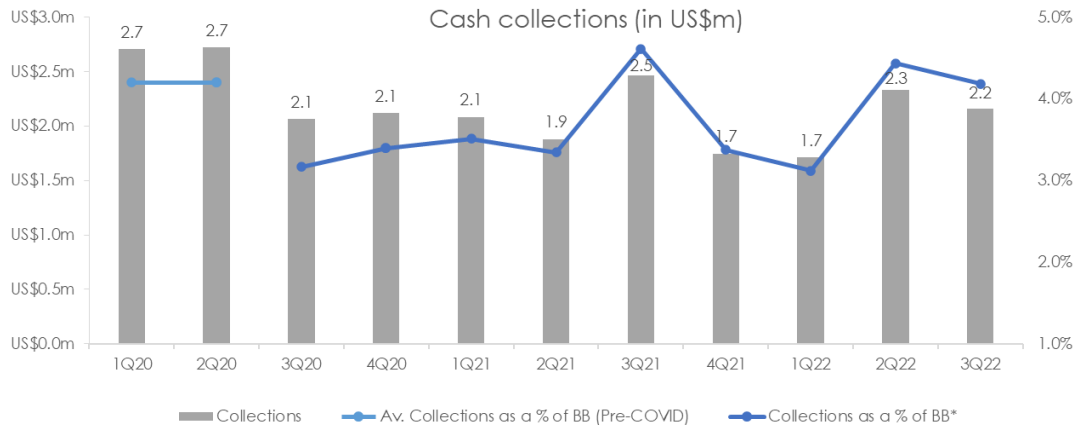
The NHF portfolio is managed as two separate sub-portfolios funded by different funders. The legacy portfolio is funded by Efficient Frontier Investing (EFI) and is comprised of receivables that are in various stages of litigation to mature receivables in their final stages of their settlement cycle (EFI book). The growth portfolio now funded by PFG is the focus of growth initiatives currently being undertaken by the team at NHF (PFG book).

Cash Collections (PFG book)

Cash collections in 3Q22 of US\$2.2 million (excluding letter of credit repayments of US\$3.8 million), were 7% lower than 2Q22 levels, however, were above the 1H22 average of US\$2 million per quarter.

Receipts from the settlement of Michigan claims were very low (US\$24,470). Despite prior expectations the settlement agreement relating to the second largest Michigan medical services provider, was not finalised in 3Q22 due to the resolution of complex legal issues. However, this settlement agreement is expected to be finalised in November 2022, allowing funds held in Trust of c.US\$0.2 million to be released to NHF.

Collections were 4.2% of the monthly borrowing bases, which was above the overall average collections since the commencement of COVID impacts.



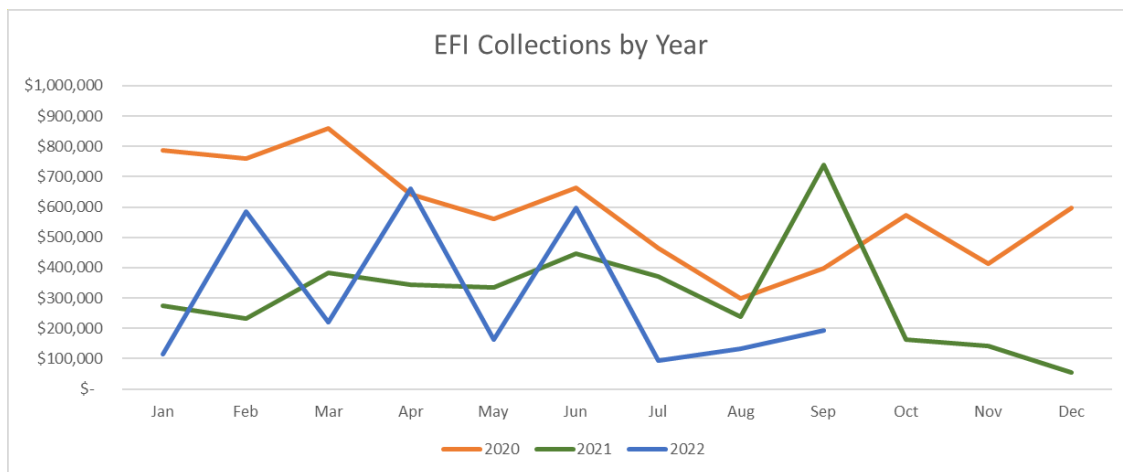
**For this analysis, we have excluded the collection of US\$3.8m Letter of Credit transaction given these loan repayments are not correlated with collections on underlying receivables.*

Recovery rates in terms of the Multiple of Capital Employed (“MOCE”) achieved on collections outside of Michigan were 1.39x in 3Q22, which were down on rates achieved during the 1H22 (c.1.5x). These MOCE’s were lower due to a number of poorly performing large claims.

Cash Collections (EFI book)

The EFI book collections were low in 3Q22 (US\$0.4 million) as compared to 2Q21 (US\$1.4 million). Michigan collections for the quarter were low US\$0.1 million, which was the primary driver of this decline.

Average monthly recoveries continue to fluctuate in line with the composition of the portfolio being in part, in various stages of litigation and in part, mature receivables nearing the end of their respective settlement cycle.



- The prior commercial agreement reached with EFI to pause financial covenant testing from 31 May 2022 to 30 November 2022, was extended to 30 March 2023 to allow for large litigation cases to be progressed. This agreement is still to be formalised as we are awaiting PFG to execute a related security acknowledgment in EFI’s favour.
- A mediation hearing was conducted in Florida for the largest litigation claim in the EFI book. The counterparty challenged the quantum of the claim and asserted that given the nature of their business (broker and servicer of medical lien paper) they did not have significant assets to settle



any judgement awarded in NHF's favour. However, following such mediation discussions have commenced in relation to a potential settlement of the claim to be funded by future receivables (of up to c.US\$2 million per month). The counterparty is willing to offer certain receivables on a right of first refusal basis. Following the mediation, the parties have continued to share information and work towards reaching a commercial deal that could form the basis of a settlement of the claim. These negotiations are continuing with the counterparty and EFI. If an agreement is not reached in the short term, the Company will recommence the process of recovering the claim through the courts.

- Management's estimated Loan to Value Ratio of the EFI facility is c.85% as at the end of September 2022.

Payments to related parties of the entity and their associates

As disclosed in Section 6.1 of the attached Appendix 4C, there were total payments of US\$123,757 to related parties for salaries and directors' fees paid to executive and non-executive directors for 3Q22. There were no other payments to related parties.

Authorised by:

The Board of Directors

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